

CHAPTER 1 INTRODUCTION TO ACCOUNTING AND BUSINESS

DISCUSSION QUESTIONS

1. Some users of accounting information include managers, employees, investors, creditors, customers, and the government.
2. The role of accounting is to provide information for managers to use in operating the business. In addition, accounting provides information to others to use in assessing the economic performance and condition of the business.
3. The corporate form allows the company to obtain large amounts of resources by issuing stock. For this reason, most companies that require large investments in property, plant, and equipment are organized as corporations.
4. No. The business entity concept limits the recording of economic data to transactions directly affecting the activities of the business. The payment of the interest of \$4,500 is a personal transaction of Josh Reilly and should not be recorded by Dispatch Delivery Service.
5. The land should be recorded at its cost of \$167,500 to Reliable Repair Service. This is consistent with the cost concept.
6.
 - a. No. The offer of \$2,000,000 and the increase in the assessed value should not be recognized in the accounting records because land is recorded on the cost basis.
 - b. Cash would increase by \$2,125,000, land would decrease by \$900,000, and owner's equity would increase by \$1,225,000.
7. An account receivable is a claim against a customer for goods or services sold. An account payable is an amount owed to a creditor for goods or services purchased. Therefore, an account receivable in the records of the seller is an account payable in the records of the purchaser.
8. (b) The business realized net income of \$91,000 (\$679,000 – \$588,000).
9. (a) The business incurred a net loss of \$75,000 (\$640,000 – \$715,000).
10.
 - (a) Net income or net loss
 - (b) Owner's equity at the end of the period
 - (c) Cash at the end of the period

PRACTICE EXERCISES**PE 1-1A**

\$597,000. Under the cost concept, the land should be recorded at the cost to Boulder Repair Service.

PE 1-1B

\$369,500. Under the cost concept, the land should be recorded at the cost to Clementine Repair Service.

PE 1-2A

a.

$$\begin{aligned} A &= L + OE \\ \$518,000 &= \$165,000 + OE \\ OE &= \$353,000 \end{aligned}$$

b.

$$\begin{aligned} A &= L + OE \\ +\$86,200 &= +\$25,000 + OE \\ OE &= +\$61,200 \\ OE \text{ on December 31, 20Y9} &= \$353,000 + \$61,200 \\ &= \$414,200 \end{aligned}$$

PE 1-2B

a.

$$\begin{aligned} A &= L + OE \\ \$382,000 &= \$94,000 + OE \\ OE &= \$288,000 \end{aligned}$$

b.

$$\begin{aligned} A &= L + OE \\ -\$63,000 &= +\$35,000 + OE \\ OE &= -\$98,000 \\ OE \text{ on December 31, 20Y9} &= \$288,000 - \$98,000 \\ &= \$190,000 \end{aligned}$$

PE 1-3A

- (2) Asset (Accounts Receivable) increases by \$22,400;
Owner's Equity (Delivery Service Fees) increases by \$22,400.
- (3) Liability (Accounts Payable) decreases by \$4,100;
Asset (Cash) decreases by \$4,100.
- (4) Asset (Cash) increases by \$14,700;
Asset (Accounts Receivable) decreases by \$14,700.
- (5) Asset (Cash) decreases by \$1,600;
Owner's Equity (Terry Young, Drawing) decreases by \$1,600.

PE 1-3B

- (2) Owner's Equity (Advertising Expense, increases) decreases by \$6,750;
Asset (Cash) decreases by \$6,750.
- (3) Asset (Supplies) increases by \$2,920;
Liability (Accounts Payable) increases by \$2,920.
- (4) Asset (Accounts Receivable) increases by \$20,460;
Owner's Equity (Delivery Service Fees) increases by \$20,460.
- (5) Asset (Cash) increases by \$11,410;
Asset (Accounts Receivable) decreases by \$11,410.

PE 1-4A

Up-in-the-Air Travel Service Income Statement For the Year Ended April 30, 20Y7		
Fees earned		\$1,870,000
Expenses:		
Wages expense	\$1,115,000	
Office expense	343,000	
Miscellaneous expense	21,000	
Total expenses		1,479,000
Net income		\$ 391,000

PE 1-4B

Zenith Travel Service Income Statement For the Year Ended August 31, 20Y4		
Fees earned		\$899,600
Expenses:		
Wages expense	\$539,800	
Office expense	353,800	
Miscellaneous expense	14,400	
Total expenses		908,000
Net loss		\$ (8,400)

PE 1-5A

Up-in-the-Air Travel Service Statement of Owner's Equity For the Year Ended April 30, 20Y7		
Jerome Foley, capital, May 1, 20Y6		\$ 876,000
Additional investment by owner during year	\$ 52,000	
Net income for the year	391,000	
Withdrawals	(34,000)	
Increase in owner's equity		409,000
Jerome Foley, capital, April 30, 20Y7		\$1,285,000

PE 1-5B

Zenith Travel Service Statement of Owner's Equity For the Year Ended August 31, 20Y4		
Megan Cox, capital, September 1, 20Y3		\$456,000
Additional investment by owner during year	\$ 43,200	
Net loss for the year	(8,400)	
Withdrawals	(21,600)	
Increase in owner's equity		13,200
Megan Cox, capital, August 31, 20Y4		\$469,200

PE 1-6A

Up-in-the-Air Travel Service Balance Sheet April 30, 20Y7	
Assets	
Cash	\$ 170,000
Accounts receivable	417,000
Supplies	16,000
Land	772,000
Total assets	\$1,375,000
Liabilities	
Accounts payable	\$ 90,000
Owner's Equity	
Jerome Foley, capital	1,285,000
Total liabilities and owner's equity	\$1,375,000

PE 1-6B

Zenith Travel Service Balance Sheet August 31, 20Y4	
Assets	
Cash	\$ 54,500
Accounts receivable	90,600
Supplies	5,600
Land	372,000
Total assets	\$522,700
Liabilities	
Accounts payable	\$ 53,500
Owner's Equity	
Megan Cox, capital	469,200
Total liabilities and owner's equity	\$522,700

PE 1-7A

Up-in-the-Air Travel Service Statement of Cash Flows For the Year Ended April 30, 20Y7		
Cash flows from (used for) operating activities:		
Cash received from customers	\$ 1,803,000	
Cash paid for operating expenses	(1,479,000)	
Net cash flows from operating activities		\$ 324,000
Cash flows from (used for) investing activities:		
Cash paid for purchase of land		(347,000)
Cash flows from (used for) financing activities:		
Cash received from owner as investment	\$ 52,000	
Cash withdrawals by owner	(34,000)	
Net cash flows from financing activities		18,000
Net decrease in cash		\$ (5,000)
Cash balance, May 1, 20Y6		175,000
Cash balance, April 30, 20Y7		\$ 170,000

PE 1-7B

Zenith Travel Service Statement of Cash Flows For the Year Ended August 31, 20Y4		
Cash flows from (used for) operating activities:		
Cash received from customers	\$ 881,000	
Cash paid for operating expenses	(895,000)	
Net cash flows used for operating activities		\$(14,000)
Cash flows from (used for) investing activities:		
Cash paid for purchase of land		(60,000)
Cash flows from (used for) financing activities:		
Cash received from owner as investment	\$ 43,200	
Cash withdrawals by owner	(21,600)	
Net cash flows from financing activities		21,600
Net decrease in cash		\$(52,400)
Cash balance, September 1, 20Y3		106,900
Cash balance, August 31, 20Y4		\$ 54,500

PE 1-8A

a.	Dec. 31, 20Y6	Dec. 31, 20Y5
Total liabilities.....	\$598,000	\$569,900
Total owner's equity.....	\$460,000	\$410,000
Ratio of liabilities to owner's equity.....	1.30 *	1.39**

* \$598,000 ÷ \$460,000

** \$569,900 ÷ \$410,000

b. Decreased

PE 1-8B

a.	Dec. 31, 20Y6	Dec. 31, 20Y5
Total liabilities.....	\$4,042,000	\$3,096,000
Total owner's equity.....	\$4,300,000	\$3,600,000
Ratio of liabilities to owner's equity.....	0.94 *	0.86**

* \$4,042,000 ÷ \$4,300,000

** \$3,096,000 ÷ \$3,600,000

b. Increased

EXERCISES**Ex. 1-1**

- | | | | |
|----|------------------|------------------|-------------------|
| a. | 1. manufacturing | 6. service | 11. service |
| | 2. manufacturing | 7. service | 12. service |
| | 3. manufacturing | 8. service | 13. manufacturing |
| | 4. service | 9. manufacturing | 14. service |
| | 5. merchandise | 10. merchandise | 15. merchandise |
- b. The accounting equation is relevant to all of the companies. It serves as the basis of the accounting information system.

Ex. 1-2

As in many ethics issues, there is no one right answer. Oftentimes, disclosing only what is legally required may not be enough. In this case, it would be best for the company's chief executive officer to disclose both reports to the county representatives. In doing so, the chief executive officer could point out any flaws or deficiencies in the fired researcher's report.

Ex. 1-3

- | | | | |
|----|------|------|-------|
| a. | 1. K | 5. B | 9. X |
| | 2. G | 6. B | 10. B |
| | 3. B | 7. X | |
| | 4. K | 8. G | |
- b. A business transaction is an economic event or condition that directly changes an entity's financial condition or results of operations.

Ex. 1-4

Dunkin's stockholders' equity: $\$3,457 - \$4,170 = (\$713)$

Starbucks' stockholders' equity: $\$24,156 - \$22,981 = \$1,175$

Ex. 1-5

Dollar Tree's stockholders' equity: $\$13,501 - \$7,858 = \$5,643$

Target's stockholders' equity: $\$41,290 - \$29,993 = \$11,297$

Ex. 1-6

- a. **\$4,474,000 (\$633,000 + \$3,841,000)**
- b. **\$387,500 (\$6,124,500 – \$5,737,000)**
- c. **\$1,232,900 (\$1,981,800 – \$748,900)**

Ex. 1-7

- a. **\$494,000 (\$659,000 – \$165,000)**
- b. **\$555,000 (\$494,000 + \$88,000 – \$27,000)**
- c. **\$330,000 (\$494,000 – \$151,000 – \$13,000)**
- d. **\$662,000 (\$494,000 + \$152,000 + \$16,000)**
- e. **Net income: \$92,000 (\$782,000 – \$196,000 – \$494,000)**

Ex. 1-8

- a. **(1) asset**
- b. **(2) liability**
- c. **(1) asset**
- d. **(3) owner's equity (revenue)**
- e. **(1) asset**
- f. **(3) owner's equity (expense)**
- g. **(1) asset**

Ex. 1-9

- a. **Increases assets and increases owner's equity.**
- b. **Decreases assets and decreases owner's equity.**
- c. **Increases assets and decreases assets.**
- d. **Increases assets and increases liabilities.**
- e. **Increases assets and increases owner's equity.**

Ex. 1-10

- a. **(1) Total assets increased \$183,000 (\$298,000 – \$115,000).**
(2) No change in liabilities.
(3) Owner's equity increased \$183,000.
- b. **(1) Total assets decreased \$80,000.**
(2) Total liabilities decreased \$80,000.
(3) No change in owner's equity.
- c. **No. It is false that a transaction always affects at least two elements (Assets, Liabilities, or Owner's Equity) of the accounting equation. Some transactions affect only one element of the accounting equation. For example, purchasing supplies for cash only affects assets.**

Ex. 1-11

1. (b) decrease
2. (a) increase
3. (b) decrease
4. (a) increase

Ex. 1-12

- | | |
|------|-------|
| 1. c | 6. c |
| 2. a | 7. d |
| 3. e | 8. a |
| 4. e | 9. e |
| 5. c | 10. e |

Ex. 1-13

- a. (1) Provided catering services for cash, \$71,800.
 (2) Purchase of land for cash, \$15,000.
 (3) Payment of cash for expenses, \$47,500.
 (4) Purchase of supplies on account, \$1,100.
 (5) Withdrawal of cash by owner, \$5,000.
 (6) Payment of cash to creditors, \$4,000.
 (7) Recognition of cost of supplies used, \$1,500.
- b. \$300 (\$40,300 – \$40,000)
- c. \$17,800 (–\$5,000 + \$71,800 – \$49,000)
- d. \$22,800 (\$71,800 – \$49,000)
- e. \$17,800 (\$22,800 – \$5,000)

Ex. 1-14

No. It would be incorrect to say that the business had incurred a net loss of \$8,000. The excess of the withdrawals over the net income for the period is a decrease in the amount of owner's equity in the business.

Ex. 1-15

Dakota	
Owner's equity at end of year (\$928,000 – \$352,000).....	\$576,000
Deduct owner's equity at beginning of year (\$605,000 – \$237,000).....	368,000
Net income (increase in owner's equity).....	<u>\$208,000</u>
Jersey	
Increase in owner's equity (as determined for Dakota).....	\$208,000
Add withdrawals.....	40,000
Net income (increase in owner's equity).....	<u>\$248,000</u>
Carolina	
Increase in owner's equity (as determined for Dakota).....	\$208,000
Deduct additional investment.....	66,000
Net income (increase in owner's equity).....	<u>\$142,000</u>
Iowa	
Increase in owner's equity (as determined for Dakota).....	\$208,000
Deduct additional investment.....	66,000
	\$142,000
Add withdrawals.....	40,000
Net income (increase in owner's equity).....	<u>\$182,000</u>

Ex. 1-16

Balance sheet items: 1, 2, 3, 4, 6, 8, 10

Ex. 1-17

Income statement items: 5, 7, 9

Ex. 1-18

a.

Pegasus Product Company Statement of Owner's Equity For the Month Ended April 30, 20Y7		
Brian Walinsky, capital, April 1, 20Y7		\$373,000
Net income for April	\$161,000	
Withdrawals	(24,000)	
Increase in owner's equity		137,000
Brian Walinsky, capital, April 30, 20Y7		\$510,000

- b. The statement of owner's equity is prepared before the April 30, 20Y7, balance sheet because Brian Walinsky, Capital as of April 30, 20Y7, is needed for the balance sheet.

Ex. 1-19

Hermes Services Income Statement For the Month Ended August 31, 20Y2		
Fees earned		\$627,600
Expenses:		
Wages expense	\$440,800	
Rent expense	28,100	
Supplies expense	6,800	
Miscellaneous expense	9,300	
Total expenses		485,000
Net income		\$142,600

Ex. 1-20

In each case, solve for a single unknown, using the following equation:

$$\text{Owner's Equity (beginning)} + \text{Investments} - \text{Withdrawals} + \text{Revenues} - \text{Expenses} = \text{Owner's Equity (ending)}$$

Freeman

Owner's equity at end of year (\$1,260,000 – \$330,000).....	\$930,000
Owner's equity at beginning of year (\$900,000 – \$360,000).....	<u>540,000</u>
Increase in owner's equity.....	\$390,000
Deduct increase due to net income (\$570,000 – \$240,000).....	<u>330,000</u>
Increase due to additional investment less withdrawals.....	\$ 60,000
Add withdrawals.....	<u>75,000</u>
Additional investment in the business..... (a)	<u>\$135,000</u>

Heyward

Owner's equity at end of year (\$675,000 – \$220,000).....	\$455,000
Owner's equity at beginning of year (\$490,000 – \$260,000).....	<u>230,000</u>
Increase in owner's equity.....	\$225,000
Add withdrawals.....	<u>32,000</u>
Increase due to additional investment and net income.....	\$257,000
Deduct additional investment.....	<u>150,000</u>
Increase due to net income.....	\$107,000
Add expenses.....	<u>128,000</u>
Revenue..... (b)	<u>\$235,000</u>

Jones

Owner's equity at end of year (\$100,000 – \$80,000).....	\$ 20,000
Owner's equity at beginning of year (\$115,000 – \$81,000).....	<u>34,000</u>
Decrease in owner's equity.....	\$(14,000)
Add decrease due to net loss (\$115,000 – \$122,500).....	<u>(7,500)</u>
Decrease due to withdrawals less additional investment.....	\$ (6,500)
Deduct additional investment.....	<u>10,000</u>
Withdrawals from the business..... (c)	<u>\$(16,500)</u>

Ramirez

Owner's equity at end of year (\$270,000 – \$136,000).....	\$134,000
Add decrease due to net loss (\$115,000 – \$128,000).....	(13,000)
Add withdrawals.....	<u>39,000</u>
Beginning owner's equity plus additional investment	\$186,000
Deduct additional investment.....	<u>55,000</u>
Owner's equity at beginning of year.....	\$131,000
Add liabilities at beginning of year.....	<u>120,000</u>
Assets at beginning of year..... (d)	<u>\$251,000</u>

Ex. 1-21

a.

Rockwell Interiors Balance Sheet February 29, 20Y0	
Assets	
Cash	\$ 290,000
Accounts receivable	720,000
Supplies	30,000
Total assets	\$1,040,000
Liabilities	
Accounts payable	\$ 280,000
Owner's Equity	
David Patel, capital	760,000
Total liabilities and owner's equity	\$1,040,000

Rockwell Interiors Balance Sheet March 31, 20Y0	
Assets	
Cash	\$ 340,000
Accounts receivable	870,000
Supplies	32,000
Total assets	\$1,242,000
Liabilities	
Accounts payable	\$ 360,000
Owner's Equity	
David Patel, capital	882,000
Total liabilities and owner's equity	\$1,242,000

b.	Owner's equity, March 31.....	\$882,000
	Owner's equity, February 29.....	<u>760,000</u>
	Net income.....	<u>\$122,000</u>
c.	Owner's equity, March 31.....	\$882,000
	Owner's equity, February 29.....	<u>760,000</u>
	Increase in owner's equity.....	\$122,000
	Add withdrawal.....	<u>50,000</u>
	Net income.....	<u>\$172,000</u>

Ex. 1-22

- a. Balance sheet: 1, 2, 3, 4, 6, 7, 8, 9, 10, 11, 13
Income statement: 5, 12, 14, 15
- b. Yes. An item can appear on more than one financial statement. For example, cash appears on both the balance sheet and statement of cash flows. However, the same item cannot appear on both the income statement and balance sheet.
- c. Yes. The accounting equation is relevant to all companies, including Exxon Mobil Corporation.

Ex. 1-23

1. (a) operating activity
2. (a) operating activity
3. (b) investing activity
4. (c) financing activity

Ex. 1-24

Ethos Consulting Group Statement of Cash Flows For the Year Ended May 31, 20Y6		
Cash flows from (used for) operating activities:		
Cash received from customers	\$ 637,500	
Cash paid for operating expenses	(475,000)	
Net cash flows from operating activities		\$162,500
Cash flows from (used for) investing activities:		
Cash paid for purchase of land		(90,000)
Cash flows from (used for) financing activities:		
Cash received from owner as investment	\$ 62,500	
Cash withdrawals by owner	(17,500)	
Net cash flows from financing activities		45,000
Net increase in cash		\$117,500
Cash balance, June 1, 20Y5		58,000
Cash balance, May 31, 20Y6		\$175,500

Ex. 1-25

- 1. All financial statements should contain the name of the business in their heading. The statement of owner's equity is incorrectly headed as "Omar Farah" rather than We-Sell Realty. The heading of the balance sheet needs the name of the business.**
- 2. The income statement and statement of owner's equity cover a period of time and should be labeled "For the Month Ended August 31, 20Y9."**
- 3. The year in the heading for the statement of owner's equity should be 20Y9 rather than 20Y8.**
- 4. The balance sheet should be labeled "August 31, 20Y9," rather than "For the Month Ended August 31, 20Y9."**
- 5. In the income statement, the miscellaneous expense amount should be listed as the last expense.**
- 6. In the income statement, the total expenses are incorrectly subtracted from the sales commissions, resulting in an incorrect net income amount. The correct net income should be \$24,150. This also affects the statement of owner's equity and the amount of Omar Farah, Capital, that appears on the balance sheet.**
- 7. In the statement of owner's equity, the additional investment should be added first to Omar Farah, capital, as of August 1, 20Y9. The net income should be presented next, followed by the amount of withdrawals, which is subtracted from the net income to yield the increase in owner's equity. The increase in owner's equity is added to Omar Farah, capital on August 1, 20Y9, to determine Omar Farah, capital on August 31, 20Y9.**
- 8. Accounts payable should be listed as a liability on the balance sheet.**
- 9. Accounts receivable and supplies should be listed as assets on the balance sheet.**
- 10. The balance sheet assets should equal the sum of the liabilities and owner's equity.**

Ex. 1-25 (Concluded)

Corrected financial statements appear as follows:

We-Sell Realty Income Statement For the Month Ended August 31, 20Y9		
Sales commissions		\$140,000
Expenses:		
Office salaries expense	\$87,000	
Rent expense	18,000	
Automobile expense	7,500	
Supplies expense	1,150	
Miscellaneous expense	2,200	
Total expenses		115,850
Net income		\$ 24,150

We-Sell Realty Statement of Owner's Equity For the Month Ended August 31, 20Y9		
Omar Farah, capital, August 1, 20Y9		\$ 0
Investment on August 1, 20Y9	\$ 15,000	
Net income for August	24,150	
Withdrawals during August	(10,000)	
Increase in owner's equity		29,150
Omar Farah, capital, August 31, 20Y9		\$29,150

We-Sell Realty Balance Sheet August 31, 20Y9	
Assets	
Cash	\$ 8,900
Accounts receivable	38,600
Supplies	4,000
Total assets	\$51,500
Liabilities	
Accounts payable	\$22,350
Owner's Equity	
Omar Farah, capital	29,150
Total liabilities and owner's equity	\$51,500

Ex. 1-26

- a. Year 2: \$43,075 ($\$44,529 - \$1,454$)
Year 1: \$38,633 ($\$42,966 - \$4,333$)
- b. Year 2: 29.63 ($\$43,075 \div \$1,454$)
Year 1: 8.92 ($\$38,633 \div \$4,333$)
- c. The ratio of liabilities to stockholders' equity increased from 8.92 to 29.63 indicating an increase in risk for creditors from Year 1 to Year 2.

Ex. 1-27

- a. Year 2: \$5,873 ($\$35,291 - \$29,418$)
Year 1: \$6,434 ($\$34,408 - \$27,974$)
- b. Year 2: 5.01 ($\$29,418 \div \$5,873$)
Year 1: 4.35 ($\$27,974 \div \$6,434$)
- c. The risk for creditors has increased from 4.35 in Year 1 to 5.01 in Year 2.
- d. The Home Depot's ratio of liabilities to stockholders' equity (29.63 in Year 2 and 8.92 in Year 1) is more in both years than is Lowe's ratio of liabilities to stockholders' equity (5.01 in Year 2 and 4.35 in Year 1). Thus, the risk to creditors of The Home Depot is more than that of Lowe's.

PROBLEMS

Prob. 1-1A

1.	Assets			= Liabilities +			Owner's Equity																	
	Cash	+	Accts. Rec.	+	Supplies	=	Accts. Payable	+	Pamela Schatz, Capital	-	Pamela Schatz, Drawing	+	Fees Earned	-	Rent Expense	-	Salaries Expense	-	Supplies Expense	-	Auto Exp.	-	Misc. Exp.	
(a)	+		55,000						+	55,000														
(b)				+	3,300		+	3,300																
Bal.	55,000				3,300		3,300		55,000															
(c)	+		18,300										+	18,300										
Bal.	73,300				3,300		3,300		55,000				18,300											
(d)	-		8,300												-	8,300								
Bal.	65,000				3,300		3,300		55,000				18,300		-	8,300								
(e)	-		2,290				-	2,290																
Bal.	62,710				3,300		1,010		55,000				18,300		-	8,300								
(f)		+	30,800										+	30,800										
Bal.	62,710		30,800		3,300		1,010		55,000				49,100		-	8,300								
(g)	-		3,180																		-	1,380	-	1,800
Bal.	59,530		30,800		3,300		1,010		55,000				49,100		-	8,300					-	1,380	-	1,800
(h)	-		7,300														-	7,300						
Bal.	52,230		30,800		3,300		1,010		55,000				49,100		-	8,300		7,300			-	1,380	-	1,800
(i)				-	2,050														-	2,050				
Bal.	52,230		30,800		1,250		1,010		55,000				49,100		-	8,300		7,300			-	1,380	-	1,800
(j)	-		13,800								-	13,800												
Bal.	38,430		30,800		1,250		1,010		55,000		-	13,800	49,100		-	8,300		7,300			-	1,380	-	1,800

- Owner's equity is the right of owners to the assets of the business. These rights are increased by owner's investments and revenues and decreased by owner's withdrawals and expenses.
- \$28,270 (\$49,100 – \$8,300 – \$7,300 – \$2,050 – \$1,380 – \$1,800)
- June's transactions increased Pamela Schatz's capital to \$69,470 (\$55,000 + \$28,270 – \$13,800), which is the initial capital investment of \$55,000 plus June's net income of \$28,270 less Pamela Schatz's withdrawals of \$13,800.

Prob. 1-2A

Excalibur Travel Agency Income Statement For the Year Ended December 31, 20Y5		
Fees earned		\$967,000
Expenses:		
Wages expense	\$540,400	
Rent expense	38,100	
Utilities expense	30,200	
Supplies expense	4,300	
Miscellaneous expense	6,800	
Total expenses		619,800
Net income		\$347,200

Excalibur Travel Agency Statement of Owner's Equity For the Year Ended December 31, 20Y5		
James Brewster, capital, January 1, 20Y5		\$ 710,000
Net income for the year	\$347,200	
Withdrawals	(44,500)	
Increase in owner's equity		302,700
James Brewster, capital, December 31, 20Y5		\$1,012,700

Excalibur Travel Agency Balance Sheet December 31, 20Y5	
Assets	
Cash	\$ 201,900
Accounts receivable	302,000
Supplies	5,800
Land	576,500
Total assets	\$1,086,200
Liabilities	
Accounts payable	\$ 73,500
Owner's Equity	
James Brewster, capital	1,012,700
Total liabilities and owner's equity	\$1,086,200

4. James Brewster, Capital of \$1,012,700

Prob. 1-3A

Reliance Financial Services Income Statement For the Month Ended July 31, 20Y2		
Fees earned		\$144,500
Expenses:		
Salaries expense	\$55,000	
Rent expense	33,000	
Auto expense	16,000	
Supplies expense	4,500	
Miscellaneous expense	4,800	
Total expenses		113,300
Net income		\$ 31,200

Reliance Financial Services Statement of Owner's Equity For the Month Ended July 31, 20Y2		
Seth Feye, capital, July 1, 20Y2		\$ 0
Investment on July 1, 20Y2	\$ 50,000	
Net income for July	31,200	
Withdrawals	(15,000)	
Increase in owner's equity		66,200
Seth Feye, capital, July 31, 20Y2		\$66,200

Reliance Financial Services Balance Sheet July 31, 20Y2	
Assets	
Cash	\$32,600
Accounts receivable	34,500
Supplies	2,500
Total assets	\$69,600
Liabilities	
Accounts payable	\$ 3,400
Owner's Equity	
Seth Feye, capital	66,200
Total liabilities and owner's equity	\$69,600

Prob. 1-3A (Concluded)**4. (Optional)**

Reliance Financial Services Statement of Cash Flows For the Month Ended July 31, 20Y2		
Cash flows from (used for) operating activities:		
Cash received from customers	\$ 110,000	
Cash paid for expenses and to creditors*	(112,400)	
Net cash flows from operating activities		\$ (2,400)
Cash flows from (used for) investing activities		0
Cash flows from (used for) financing activities:		
Cash received from owner as investment	\$ 50,000	
Cash withdrawal by owner	(15,000)	
Net cash flows from financing activities		35,000
Net increase in cash		\$32,600
Cash balance, July 1, 20Y2		0
Cash balance, July 31, 20Y2		\$32,600

* \$3,600 + \$33,000 + \$20,800 + \$55,000; these amounts are taken from the Cash column shown in the problem.

Prob. 1-4A

1.	Assets		= Liabilities +		Owner's Equity							
	Cash	+ Supplies	=	Accts. Payable	+ Pat Glenn, Capital	- Pat Glenn, Drawing	+ Sales Comm.	- Salaries Exp.	- Rent Exp.	- Auto Exp.	- Supplies Exp.	- Misc. Exp.
(a)	+ 25,000				+ 25,000							
(b)		+ 1,850		+ 1,850								
Bal.	25,000	1,850		1,850	25,000							
(c)	- 1,200			- 1,200								
Bal.	23,800	1,850		650	25,000							
(d)	+ 41,500						+ 41,500					
Bal.	65,300	1,850		650	25,000		41,500		- 3,600			
(e)	- 3,600								- 3,600			
Bal.	61,700	1,850		650	25,000		41,500		- 3,600			
(f)	- 4,000					- 4,000						
Bal.	57,700	1,850		650	25,000	- 4,000	41,500		- 3,600			
(g)	- 4,650									- 3,050		- 1,600
Bal.	53,050	1,850		650	25,000	- 4,000	41,500		- 3,600	- 3,050		- 1,600
(h)	- 5,000							- 5,000				
Bal.	48,050	1,850		650	25,000	- 4,000	41,500	- 5,000	- 3,600	- 3,050		- 1,600
(i)		- 900									- 900	
Bal.	48,050	950		650	25,000	- 4,000	41,500	- 5,000	- 3,600	- 3,050	- 900	- 1,600

Prob. 1-4A (Concluded)

2.

Half Moon Realty Income Statement For the Month Ended July 31, 20Y7		
Sales commissions		\$41,500
Expenses:		
Salaries expense	\$5,000	
Rent expense	3,600	
Auto expense	3,050	
Supplies expense	900	
Miscellaneous expense	1,600	
Total expenses		14,150
Net income		\$27,350

Half Moon Realty Statement of Owner's Equity For the Month Ended July 31, 20Y7		
Pat Glenn, capital, July 1, 20Y7		\$ 0
Investment on July 1, 20Y7	\$25,000	
Net income for July	27,350	
Withdrawals	(4,000)	
Increase in owner's equity		48,350
Pat Glenn, capital, July 31, 20Y7		\$48,350

Half Moon Realty Balance Sheet July 31, 20Y7	
Assets	
Cash	\$48,050
Supplies	950
Total assets	\$49,000
Liabilities	
Accounts payable	\$ 650
Owner's Equity	
Pat Glenn, capital	48,350
Total liabilities and owner's equity	\$49,000

Prob. 1-5A

1.	Assets					=	Liabilities	+	Owner's Equity		
	Cash	+	Accounts Receivable	+	Supplies	+	Land	=	Accounts Payable	+	Joel Palk, Capital
	\$45,000	+	\$93,000	+	\$7,000	+	\$75,000	=	\$40,000	+	Joel Palk, Capital
							\$220,000	=	\$40,000	+	Joel Palk, Capital
							\$180,000	=			Joel Palk, Capital

Prob. 1-5A (Continued)

2.	Assets					=	Liabilities	+	Owner's Equity				
	Cash	+	Accts. Rec.	+	Supplies	+	Land	=	Accts. Payable	+	Joel Palk, Capital	-	Joel Palk, Drawing
Bal.	45,000		93,000		7,000		75,000		40,000		180,000		
(a)	+	35,000									+	35,000	
Bal.	80,000		93,000		7,000		75,000		40,000		215,000		
(b)	-	50,000					+	50,000					
Bal.	30,000		93,000		7,000		125,000		40,000		215,000		
(c)	+	32,125											
Bal.	62,125		93,000		7,000		125,000		40,000		215,000		
(d)	-	6,000											
Bal.	56,125		93,000		7,000		125,000		40,000		215,000		
(e)					+	2,500			+	2,500			
Bal.	56,125		93,000		9,500		125,000		42,500		215,000		
(f)	-	22,800							-	22,800			
Bal.	33,325		93,000		9,500		125,000		19,700		215,000		
(g)			+	84,750									
Bal.	33,325		177,750		9,500		125,000		19,700		215,000		
(h)									+	29,500			
Bal.	33,325		177,750		9,500		125,000		49,200		215,000		
(i)	-	14,000											
Bal.	19,325		177,750		9,500		125,000		49,200		215,000		
(j)	+	88,000	-	88,000									
Bal.	107,325		89,750		9,500		125,000		49,200		215,000		
(k)					-	3,600							
Bal.	107,325		89,750		5,900		125,000		49,200		215,000		
(l)	-	12,000										-	12,000
Bal.	95,325		89,750		5,900		125,000		49,200		215,000	-	12,000

Prob. 1-5A (Continued)

Owner's Equity (Continued)																
	Dry Cleaning + Revenue	-	Dry Cleaning Exp.	-	Wages Exp.	-	Rent Exp.	-	Supplies Exp.	-	Truck Exp.	-	Utilities Exp.	-	Misc. Exp.	
Bal.																
(a)																
Bal.																
(b)																
Bal.																
(c)	+	32,125														
Bal.		32,125														
(d)							-	6,000								
Bal.		32,125					-	6,000								
(e)																
Bal.		32,125					-	6,000								
(f)																
Bal.		32,125					-	6,000								
(g)	+	84,750														
Bal.		116,875					-	6,000								
(h)			-	29,500												
Bal.		116,875	-	29,500			-	6,000								
(i)					-	7,500					-	2,500	-	1,300	-	2,700
Bal.		116,875	-	29,500	-	7,500	-	6,000			-	2,500	-	1,300	-	2,700
(j)																
Bal.		116,875	-	29,500	-	7,500	-	6,000			-	2,500	-	1,300	-	2,700
(k)									-	3,600						
Bal.		116,875	-	29,500	-	7,500	-	6,000	-	3,600	-	2,500	-	1,300	-	2,700
(l)																
Bal.		116,875	-	29,500	-	7,500	-	6,000	-	3,600	-	2,500	-	1,300	-	2,700

Prob. 1-5A (Continued)

3.

D'Lite Dry Cleaners Income Statement For the Month Ended July 31, 20Y6		
Dry cleaning revenue		\$116,875
Expenses:		
Dry cleaning expense	\$29,500	
Wages expense	7,500	
Rent expense	6,000	
Supplies expense	3,600	
Truck expense	2,500	
Utilities expense	1,300	
Miscellaneous expense	2,700	
Total expenses		53,100
Net income		\$ 63,775

D'Lite Dry Cleaners Statement of Owner's Equity For the Month Ended July 31, 20Y6		
Joel Palk, capital, July 1, 20Y6		\$180,000
Additional investment during July	\$ 35,000	
Net income for July	63,775	
Withdrawals	(12,000)	
Increase in owner's equity		86,775
Joel Palk, capital, July 31, 20Y6		\$266,775

D'Lite Dry Cleaners Balance Sheet July 31, 20Y6	
Assets	
Cash	\$ 95,325
Accounts receivable	89,750
Supplies	5,900
Land	125,000
Total assets	\$315,975
Liabilities	
Accounts payable	\$ 49,200
Owner's Equity	
Joel Palk, capital	266,775
Total liabilities and owner's equity	\$315,975

Prob. 1-5A (Concluded)**4. (Optional)**

D'Lite Dry Cleaners Statement of Cash Flows For the Month Ended July 31, 20Y6		
Cash flows from (used for) operating activities:		
Cash received from customers*	\$120,125	
Cash paid for expenses and to creditors**	(42,800)	
Net cash flows from operating activities		\$ 77,325
Cash flows from (used for) investing activities:		
Cash paid for purchase of land		(50,000)
Cash flows from (used for) financing activities:		
Cash received from owner as investment	\$ 35,000	
Cash withdrawal by owner	(12,000)	
Net cash flows from financing activities		23,000
Net increase in cash		\$ 50,325
Cash balance, July 1, 20Y6		45,000
Cash balance, July 31, 20Y6		\$ 95,325

* \$32,125 + \$88,000; these amounts are taken from the Cash column of the spreadsheet in Part 2.

** \$6,000 + \$22,800 + \$14,000; these amounts are taken from the Cash column of the spreadsheet in Part 2.

Prob. 1-6A

- a. Fees earned, \$750,000 ($\$275,000 + \$475,000$)
- b. Supplies expense, \$30,000 ($\$475,000 - \$300,000 - \$100,000 - \$20,000 - \$25,000$)
- c. Dakota Rowe, capital, April 1, 20Y3, \$0; Wolverine Realty was organized on April 1, 20Y3.
- d. Net income for April, \$275,000 from income statement
- e. Increase in owner's equity, \$525,000 ($\$375,000 + \$275,000 - \$125,000$)
- f. Dakota Rowe, capital, April 30, 20Y3, \$525,000
- g. Total assets, \$625,000 ($\$462,500 + \$12,500 + \$150,000$)
- h. Dakota Rowe, capital, \$525,000 ($\$625,000 - \$100,000$)
- i. Total liabilities and owner's equity, \$625,000 ($\$100,000 + \$525,000$); same as (g)
- j. Cash received from customers, \$750,000; this is the same as fees earned (a) since there are no accounts receivable.
- k. Net cash flows from operating activities, \$362,500 ($\$750,000 - \$387,500$)
- l. Cash payments for acquisition of land, (\$150,000)
- m. Cash received as owner's investment, \$375,000
- n. Cash withdrawal by owner, (\$125,000)
- o. Net cash flows from financing activities, \$250,000 ($\$375,000 - \$125,000$)
- p. Net increase in cash, \$462,500 ($\$362,500 - \$150,000 + \$250,000$)
- q. April 30, 20Y3, cash balance, \$462,500

Prob. 1-2B

1.

Wilderness Travel Service Income Statement For the Year Ended April 30, 20Y5		
Fees earned		\$875,000
Expenses:		
Wages expense	\$525,000	
Rent expense	75,000	
Utilities expense	38,000	
Supplies expense	12,000	
Taxes expense	10,000	
Miscellaneous expense	15,000	
Total expenses		675,000
Net income		\$200,000

2.

Wilderness Travel Service Statement of Owner's Equity For the Year Ended April 30, 20Y5		
Harper Borg, capital, May 1, 20Y4		\$180,000
Net income for the year	\$200,000	
Withdrawals	(40,000)	
Increase in owner's equity		160,000
Harper Borg, capital, April 30, 20Y5		\$340,000

3.

Wilderness Travel Service Balance Sheet April 30, 20Y5	
Assets	
Cash	\$146,000
Accounts receivable	210,000
Supplies	9,000
Total assets	\$365,000
Liabilities	
Accounts payable	\$ 25,000
Owner's Equity	
Harper Borg, capital	340,000
Total liabilities and owner's equity	\$365,000

4. Net income of \$200,000

Prob. 1-3B

1.

Bronco Consulting Income Statement For the Month Ended August 31, 20Y2		
Fees earned		\$125,000
Expenses:		
Salaries expense	\$58,000	
Rent expense	27,000	
Auto expense	15,500	
Supplies expense	6,100	
Miscellaneous expense	7,500	
Total expenses		114,100
Net income		\$ 10,900

2.

Bronco Consulting Statement of Owner's Equity For the Month Ended August 31, 20Y2		
Jose Loder, capital, August 1, 20Y2		\$ 0
Investment on August 1, 20Y2	\$ 75,000	
Net income for August	10,900	
Withdrawals	(15,000)	
Increase in owner's equity		70,900
Jose Loder, capital, August 31, 20Y2		\$70,900

3.

Bronco Consulting Balance Sheet August 31, 20Y2	
Assets	
Cash	\$38,000
Accounts receivable	33,000
Supplies	2,900
Total assets	\$73,900
Liabilities	
Accounts payable	\$ 3,000
Owner's Equity	
Jose Loder, capital	70,900
Total liabilities and owner's equity	\$73,900

Prob. 1-3B (Concluded)**4. (Optional)**

Bronco Consulting Statement of Cash Flows For the Month Ended August 31, 20Y2		
Cash flows from (used for) operating activities:		
Cash received from customers	\$ 92,000	
Cash paid for expenses and to creditors*	(114,000)	
Net cash flows from operating activities		\$(22,000)
Cash flows from (used for) investing activities		0
Cash flows from (used for) financing activities:		
Cash received from owner as investment	\$ 75,000	
Cash withdrawal by owner	(15,000)	
Net cash flows from financing activities		60,000
Net increase in cash		\$ 38,000
Cash balance, August 1, 20Y2		0
Cash balance, August 31, 20Y2		\$ 38,000

* \$27,000 + \$6,000 + \$23,000 + \$58,000; these amounts are taken from the Cash column shown in the problem.

Prob. 1-4B

1. Assets		= Liabilities +	Owner's Equity							
Cash	+ Supplies	Accts. Payable	+ Maria Adams, Capital	- Maria Adams, Drawing	+ Sales Comm.	- Rent Exp.	- Salaries Exp.	- Auto Exp.	- Supplies Exp.	Misc. Exp.
(a) + 24,000			+ 24,000			- 3,600				
(b) - 3,600						- 3,600				
Bal. 20,400			24,000							
(c) - 1,950						- 3,600		- 1,350		- 600
Bal. 18,450			24,000					- 1,350		- 600
(d) + 1,200	+ 1,200	+ 1,200				- 3,600		- 1,350		- 600
Bal. 18,450	1,200	1,200	24,000							
(e) + 19,800					+ 19,800					
Bal. 38,250	1,200	1,200	24,000		19,800	- 3,600		- 1,350		- 600
(f) - 750		- 750								
Bal. 37,500	1,200	450	24,000		19,800	- 3,600		- 1,350		- 600
(g) - 2,500							- 2,500			
Bal. 35,000	1,200	450	24,000		19,800	- 3,600	- 2,500	- 1,350		- 600
(h) - 3,500				- 3,500						
Bal. 31,500	1,200	450	24,000	- 3,500	19,800	- 3,600	- 2,500	- 1,350		- 600
(i) - 900	- 900								- 900	
Bal. 31,500	300	450	24,000	- 3,500	19,800	- 3,600	- 2,500	- 1,350	- 900	- 600

Prob. 1-4B (Concluded)

2.

Custom Realty Income Statement For the Month Ended April 30, 20Y7		
Sales commissions		\$19,800
Expenses:		
Rent expense	\$3,600	
Salaries expense	2,500	
Auto expense	1,350	
Supplies expense	900	
Miscellaneous expense	600	
Total expenses		8,950
Net income		\$10,850

Custom Realty Statement of Owner's Equity For the Month Ended April 30, 20Y7		
Maria Adams, capital, April 1, 20Y7		\$ 0
Investment on April 1, 20Y7	\$24,000	
Net income for April	10,850	
Withdrawals	(3,500)	
Increase in owner's equity		31,350
Maria Adams, capital, April 30, 20Y7		\$31,350

Custom Realty Balance Sheet April 30, 20Y7	
Assets	
Cash	\$31,500
Supplies	300
Total assets	\$31,800
Liabilities	
Accounts payable	\$ 450
Owner's Equity	
Maria Adams, capital	31,350
Total liabilities and owner's equity	\$31,800

Prob. 1-5B

1.	<u>Assets</u>					=	<u>Liabilities</u>	+	<u>Owner's Equity</u>		
	Cash	+	Accounts Receivable	+	Supplies	+	Land	=	Accounts Payable	+	Beverly Zahn, Capital
	\$39,000	+	\$80,000	+	\$11,000	+	\$50,000	=	\$31,500	+	Beverly Zahn, Capital
							\$180,000	=	\$31,500	+	Beverly Zahn, Capital
							\$148,500	=	Beverly Zahn, Capital		

Prob. 1-5B (Continued)

2.	Assets					=	Liabilities	+	Owner's Equity				
	Cash	+	Accts. Rec.	+	Supplies	+	Land	=	Accts. Payable	+	Beverly Zahn, Capital	-	Beverly Zahn, Drawing
Bal.	39,000		80,000		11,000		50,000		31,500		148,500		
(a)	+ 21,000										+ 21,000		
Bal.	60,000		80,000		11,000		50,000		31,500		169,500		
(b)	- 35,000						+ 35,000						
Bal.	25,000		80,000		11,000		85,000		31,500		169,500		
(c)	- 4,000												
Bal.	21,000		80,000		11,000		85,000		31,500		169,500		
(d)			+ 72,000										
Bal.	21,000		152,000		11,000		85,000		31,500		169,500		
(e)	- 20,000								- 20,000				
Bal.	1,000		152,000		11,000		85,000		11,500		169,500		
(f)					+ 8,000				+ 8,000				
Bal.	1,000		152,000		19,000		85,000		19,500		169,500		
(g)	+ 38,000												
Bal.	39,000		152,000		19,000		85,000		19,500		169,500		
(h)	+ 77,000		- 77,000										
Bal.	116,000		75,000		19,000		85,000		19,500		169,500		
(i)									+ 29,450				
Bal.	116,000		75,000		19,000		85,000		48,950		169,500		
(j)	- 29,200												
Bal.	86,800		75,000		19,000		85,000		48,950		169,500		
(k)					- 7,200								
Bal.	86,800		75,000		11,800		85,000		48,950		169,500		
(l)	- 5,000											- 5,000	
Bal.	81,800		75,000		11,800		85,000		48,950		169,500	- 5,000	

Prob. 1-5B (Continued)

Owner's Equity (Continued)

	Dry Cleaning + Revenue	-	Dry Cleaning Exp.	-	Wages Exp.	-	Supplies Exp.	-	Rent Exp.	-	Truck Exp.	-	Utilities Exp.	-	Misc. Exp.
Bal.															
(a)															
Bal.															
(b)															
Bal.															
(c)									- 4,000						
Bal.									- 4,000						
(d)	+ 72,000														
Bal.	72,000								- 4,000						
(e)															
Bal.	72,000								- 4,000						
(f)															
Bal.	72,000								- 4,000						
(g)	+ 38,000														
Bal.	110,000								- 4,000						
(h)															
Bal.	110,000								- 4,000						
(i)			- 29,450												
Bal.	110,000		- 29,450						- 4,000						
(j)					- 24,000						- 2,100		- 1,800		- 1,300
Bal.	110,000		- 29,450		- 24,000				- 4,000		- 2,100		- 1,800		- 1,300
(k)							- 7,200								
Bal.	110,000		- 29,450		- 24,000		- 7,200		- 4,000		- 2,100		- 1,800		- 1,300
(l)															
Bal.	110,000		- 29,450		- 24,000		- 7,200		- 4,000		- 2,100		- 1,800		- 1,300

Prob. 1-5B (Continued)

Bev's Dry Cleaners Income Statement For the Month Ended November 30, 20Y6		
Dry cleaning revenue		\$110,000
Expenses:		
Dry cleaning expense	\$29,450	
Wages expense	24,000	
Supplies expense	7,200	
Rent expense	4,000	
Truck expense	2,100	
Utilities expense	1,800	
Miscellaneous expense	1,300	
Total expenses		69,850
Net income		\$ 40,150

Bev's Dry Cleaners Statement of Owner's Equity For the Month Ended November 30, 20Y6		
Beverly Zahn, capital, November 1, 20Y6		\$148,500
Additional investment during November	\$21,000	
Net income for November	40,150	
Withdrawals	(5,000)	
Increase in owner's equity		56,150
Beverly Zahn, capital, November 30, 20Y6		\$204,650

Bev's Dry Cleaners Balance Sheet November 30, 20Y6	
Assets	
Cash	\$ 81,800
Accounts receivable	75,000
Supplies	11,800
Land	85,000
Total assets	\$253,600
Liabilities	
Accounts payable	\$ 48,950
Owner's Equity	
Beverly Zahn, capital	204,650
Total liabilities and owner's equity	\$253,600

Prob. 1-5B (Concluded)**4. (Optional)**

Bev's Dry Cleaners Statement of Cash Flows For the Month Ended November 30, 20Y6		
Cash flows from (used for) operating activities:		
Cash received from customers*	\$115,000	
Cash paid for expenses and to creditors**	(53,200)	
Net cash flows from operating activities		\$ 61,800
Cash flows from (used for) investing activities:		
Cash paid for purchase of land		(35,000)
Cash flows from (used for) financing activities:		
Cash received from owner as investment	\$ 21,000	
Cash withdrawal by owner	(5,000)	
Net cash flows from financing activities		16,000
Net increase in cash		\$ 42,800
Cash balance, November 1, 20Y6		39,000
Cash balance, November 30, 20Y6		\$ 81,800

* \$38,000 + \$77,000; these amounts are taken from the Cash column of the spreadsheet in Part 2.

** \$4,000 + \$20,000 + \$29,200; these amounts are taken from the Cash column of the spreadsheet in Part 2.

Prob. 1-6B

- a. Wages expense, \$203,200 ($\$288,000 - \$48,000 - \$17,600 - \$14,400 - \$4,800$)
- b. Net income, \$112,000 ($\$400,000 - \$288,000$)
- c. LuAnn Martin, capital, May 1, 20Y3, \$0; Atlas Realty was organized on May 1, 20Y3.
- d. Investment on May 1, 20Y3, \$160,000; from statement of cash flows
- e. Net income for May, \$112,000; from (b)
- f. Withdrawals, \$64,000; from statement of cash flows
- g. Increase in owner's equity, \$208,000 ($\$160,000 + \$112,000 - \$64,000$)
- h. LuAnn Martin, capital, May 31, 20Y3, \$208,000
- i. Land, \$120,000; from statement of cash flows
- j. Total assets, \$256,000 ($\$123,200 + \$12,800 + \$120,000$)
- k. LuAnn Martin, capital, \$208,000
- l. Total liabilities and owner's equity, \$256,000 ($\$48,000 + \$208,000$)
- m. Cash received from customers, \$400,000; this is the same as fees earned since there are no accounts receivable.
- n. Net cash flows from operating activities, \$147,200 ($\$400,000 - \$252,800$)
- o. Net cash flows from financing activities, \$96,000 ($\$160,000 - \$64,000$)
- p. Net increase in cash, \$123,200 ($\$147,200 - \$120,000 + \$96,000$)
- q. May 31, 20Y3, cash balance, \$123,200

CONTINUING PROBLEM

1.		Assets				=	Liabilities		+	Owner's Equity					
		Cash	+	Accts. Rec.	+		Supplies	=		Accts. Payable	+	Peyton Smith, Capital	-	Peyton Smith, Drawing	+
June	1	+	4,000							+	4,000				
June	2	+	3,500											+	3,500
Bal.			7,500								4,000				3,500
June	2	-	800												
Bal.			6,700								4,000				3,500
June	4					+	350	+	350						
Bal.			6,700				350		350		4,000				3,500
June	6	-	500												
Bal.			6,200				350		350		4,000				3,500
June	8	-	675												
Bal.			5,525				350		350		4,000				3,500
June	12	-	350												
Bal.			5,175				350		350		4,000				3,500
June	13	-	100					-	100						
Bal.			5,075				350		250		4,000				3,500
June	16	+	300											+	300
Bal.			5,375				350		250		4,000				3,800
June	22			+	1,000									+	1,000
Bal.			5,375		1,000		350		250		4,000				4,800
June	25	+	500											+	500
Bal.			5,875		1,000		350		250		4,000				5,300
June	29	-	240												
Bal.			5,635		1,000		350		250		4,000				5,300
June	30	+	900											+	900
Bal.			6,535		1,000		350		250		4,000				6,200
June	30	-	400												
Bal.			6,135		1,000		350		250		4,000				6,200
June	30	-	300												
Bal.			5,835		1,000		350		250		4,000				6,200
June	30					-	180								
Bal.			5,835		1,000		170		250		4,000				6,200
June	30	-	415												
Bal.			5,420		1,000		170		250		4,000				6,200
June	30	-	1,000												
Bal.			4,420		1,000		170		250		4,000				6,200
June	30	-	500									-	500		
Bal.			3,920		1,000		170		250		4,000	-	500		6,200

Continuing Problem (Continued)

Owner's Equity (Continued)																
		Music		Office		Equip.		Adver-		Wages		Utilities		Supplies		Misc.
	-	Exp.	-	Rent	-	Rent	-	tising	-	Exp.	-	Exp.	-	Exp.	-	Exp.
June	1															
June	2															
Bal.																
June	2			-	800											
Bal.				-	800											
June	4															
Bal.				-	800											
June	6							-	500							
Bal.				-	800			-	500							
June	8					-	675									
Bal.				-	800	-	675	-	500							
June	12	-	350													
Bal.		-	350	-	800	-	675	-	500							
June	13															
Bal.		-	350	-	800	-	675	-	500							
June	16															
Bal.		-	350	-	800	-	675	-	500							
June	22															
Bal.		-	350	-	800	-	675	-	500							
June	25															
Bal.		-	350	-	800	-	675	-	500							
June	29	-	240													
Bal.		-	590	-	800	-	675	-	500							
June	30															
Bal.		-	590	-	800	-	675	-	500							
June	30									-	400					
Bal.		-	590	-	800	-	675	-	500	-	400					
June	30											-	300			
Bal.		-	590	-	800	-	675	-	500	-	400	-	300			
June	30													-	180	
Bal.		-	590	-	800	-	675	-	500	-	400	-	300	-	180	
June	30															-
Bal.		-	590	-	800	-	675	-	500	-	400	-	300	-	180	-
June	30	-	1,000													
Bal.		-	1,590	-	800	-	675	-	500	-	400	-	300	-	180	-
June	30															
Bal.		-	1,590	-	800	-	675	-	500	-	400	-	300	-	180	-

Continuing Problem (Concluded)

PS Music Income Statement For the Month Ended June 30, 20Y9		
Fees earned:		\$6,200
Expenses:		
Music expense	\$1,590	
Office rent expense	800	
Equipment rent expense	675	
Advertising expense	500	
Wages expense	400	
Utilities expense	300	
Supplies expense	180	
Miscellaneous expense	415	
Total expenses		4,860
Net income		\$1,340

PS Music Statement of Owner's Equity For the Month Ended June 30, 20Y9		
Peyton Smith, capital, June 1, 20Y9		\$ 0
Investment on June 1, 20Y9	\$4,000	
Net income for June	1,340	
Withdrawals	(500)	
Increase in owner's equity		4,840
Peyton Smith, capital, June 30, 20Y9		\$4,840

PS Music Balance Sheet June 30, 20Y9	
Assets	
Cash	\$3,920
Accounts receivable	1,000
Supplies	170
Total assets	\$5,090
Liabilities	
Accounts payable	\$ 250
Owner's Equity	
Peyton Smith, capital	4,840
Total liabilities and owner's equity	\$5,090

CASES & PROJECTS

CP 1-1

1. The car repair is a personal expense and is Marco's personal responsibility. By using partnership funds to pay for the repair, Marco is behaving unethically because he is violating the business entity assumption. The business entity assumption treats the business as a separate entity from its owners. By taking money from the partnership for a personal expense, Marco is effectively stealing from his partners.
2. The partnership's net income will be reduced by the \$2,000 Marco has taken. This will reduce the amount of net income available to Marco's partners.
3. Marco could ask his partners for a loan from the partnership. The loan could be repaid out of his salary or from his share of the partnership income.

CP 1-2

1. Acceptable professional conduct requires that Colleen Fernandez supply First Federal Bank with all the relevant financial statements necessary for the bank to make an informed decision. Therefore, Colleen should provide the complete set of financial statements. These can be supplemented with a discussion of the net loss in the past year or other data explaining why granting the loan is a good investment for the bank.
2. a. Owners are generally willing to provide bankers with information about the operating and financial condition of the business, such as the following:
 - Operating Information:
 - Description of business operations
 - Results of past operations
 - Preliminary results of current operations
 - Plans for future operations
 - Financial Condition:
 - List of assets and liabilities (balance sheet)
 - Estimated current values of assets
 - Owner's personal investment in the business
 - Owner's commitment to invest additional funds in the business

Owners are normally reluctant to provide the following types of information to bankers:

- **Proprietary Operating Information.** Such information, which could hurt the business if it becomes known by competitors, might include special processes used by the business or future plans to expand operations into areas that are not currently served by a competitor.

CP 1-2 (Concluded)

- **Personal Financial Information.** Owners may have little choice here because banks often require owners of small businesses to pledge their personal assets as security for a business loan. Personal financial information requested by bankers often includes the owner's net worth, salary, and other income. In addition, bankers usually request information about factors that might affect the personal financial condition of the owner. For example, a pending divorce by the owner might significantly affect the owner's personal wealth.
- b. Bankers typically want as much information as possible about the ability of the business and the owner to repay the loan with interest. Examples of such information are described above.
- c. Both bankers and business owners share the common interest of the business doing well and being successful. If the business is successful, the bankers will receive their loan payments on time with interest and the owners will increase their personal wealth.

CP 1-3

A sample solution based on Nike Inc.'s Form 10-K for the fiscal year ended May 31, 2018, is as follows:

1. Nike, Inc.
2. Beaverton, Oregon
3. Mark G. Parker
4. Manufacturing
5. Our principal business activity is the design, development, and worldwide marketing and selling of athletic footwear, apparel, equipment, accessories, and services.
6. Income statement, statement of comprehensive income, balance sheet, statement of stockholders' equity, statement of cash flows

Note to Instructor: The statement of comprehensive income is discussed in the appendix to Chapter 15. Since students will see this statement in a company's annual report or 10-K, we listed it as part of the answer.

CP 1-4**Example Memo**

To: My Teacher
From: Ima Student
Date: January 1, 20XX
Re: Causes of Accounting Fraud

Business and accounting fraud typically result from either a failure of individual character or a culture of greed within an organization. Managers and accountants often face pressure to meet or exceed a company's financial goals. At times, supervisors can place pressure on individuals to violate accounting standards to improve a company's reported financial results. Individuals who give in to these pressures exhibit a failure of individual character. In other situations, the organization may expect employees to violate accounting rules as part of their job. This occurs in organizations that do not value ethical decision making or fair financial reporting and exhibit a culture of ethical indifference.

CP 1-5

The difference in the two bank balances, \$55,000 (\$80,000 – \$25,000), may not be pure profit from an accounting perspective. To determine the accounting profit for the six-month period, the revenues for the period would need to be matched with the related expenses. The revenues minus the expenses would indicate whether the business generated net income (profit) or a net loss for the period. Using only the difference between the two bank account balances ignores such factors as amounts due from customers (receivables), liabilities (accounts payable) that need to be paid for wages or other operating expenses, additional investments that Dr. Cousins may have made in the business during the period, or withdrawals during the period that Dr. Cousins might have taken for personal reasons unrelated to the business.

Some businesses that have few, if any, receivables or payables may use a "cash" basis of accounting. The cash basis of accounting ignores receivables and payables because they are assumed to be insignificant in amount. However, even with the cash basis of accounting, additional investments during the period and any withdrawals during the period must be considered in determining the net income (profit) or net loss for the period.

CP 1-6

1.	Assets		= Liabilities +		Owner's Equity					
	Cash	+ Supplies	Accts. Payable	+ Lisa Duncan, Capital	- Lisa Duncan, Drawing	+ Fees Earned	- Salaries Expense	- Rent Expense	- Supplies Expense	Misc. Exp.
(a)	+ 950			+ 950						
(b)	- 300	+ 300								
Bal.	650	300		950						
(c)	- 275							- 275		
Bal.	375	300		950				- 275		
(d)	- 100		+ 150					- 250		
Bal.	275	300	150	950				- 525		
(e)	+ 1,750					+ 1,750				
Bal.	2,025	300	150	950		1,750		- 525		
(f)	+ 600					+ 600				
Bal.	2,625	300	150	950		2,350		- 525		
(g)	- 800						- 800			
Bal.	1,825	300	150	950		2,350	- 800	- 525		- 290
(h)	- 290									
Bal.	1,535	300	150	950		2,350	- 800	- 525		- 290
(i)	+ 1,300					+ 1,300				
Bal.	2,835	300	150	950		3,650	- 800	- 525		- 290
(j)	- 120								- 120	
Bal.	2,835	180	150	950		3,650	- 800	- 525	- 120	- 290
(k)	- 400				- 400					
Bal.	2,435	180	150	950	- 400	3,650	- 800	- 525	- 120	- 290

CP 1-6 (Continued)

Serve-N-Volley Income Statement For the Month Ended September 30, 20Y7		
Fees earned:		\$3,650
Expenses:		
Salaries expense	\$800	
Rent expense	525	
Supplies expense	120	
Miscellaneous expense	290	
Total expenses		1,735
Net income		\$1,915

Serve-N-Volley Statement of Owner's Equity For the Month Ended September 30, 20Y7		
Lisa Duncan, capital, September 1, 20Y7		\$ 0
Investment on September 1, 20Y7	\$ 950	
Net income for September	1,915	
Withdrawals	(400)	
Increase in owner's equity		2,465
Lisa Duncan, capital, September 30, 20Y7		\$2,465

Serve-N-Volley Balance Sheet September 30, 20Y7		
Assets		
Cash		\$2,435
Supplies		180
Total assets		\$2,615
Liabilities		
Accounts payable		\$ 150
Owner's Equity		
Lisa Duncan, capital		2,465
Total liabilities and owner's equity		\$2,615

CP 1-6 (Concluded)

5. a. Serve-N-Volley would provide Lisa with \$715 more income per month than working as a waitress. This amount is computed as follows:

Net income of Serve-N-Volley, per month.....	\$1,915
Earnings as waitress, per month:	
30 hours per week × \$10 per hour × 4 weeks.....	<u>1,200</u>
Difference.....	<u>\$ 715</u>

- b. Other factors that Lisa should consider before discussing a long-term arrangement with the Phoenix Tennis Club include the following:

Lisa should consider whether the results of operations for September are indicative of what to expect each month. For example, Lisa should consider whether club members will continue to request lessons or use the ball machine during the fall months when interest in tennis may slacken. Lisa should evaluate whether the additional income of \$715 per month from Serve-N-Volley is worth the risk being taken and the effort being expended.

Lisa should also consider how much her investment in Serve-N-Volley could have earned if invested elsewhere. For example, if the initial investment of \$950 had been invested to earn a rate of return of 6% per year, it would have earned \$4.75 in September, or \$57 for the year.

Note to Instructors: Numerous other considerations could be mentioned by students, such as the ability of Lisa to withdraw cash from Serve-N-Volley for personal use. For example, some of her investment in Serve-N-Volley will be in the form of supplies (tennis balls, for example), which are readily convertible to cash. The objective of this case is not to mention all possible considerations but, rather, to encourage students to begin thinking about the use of accounting information in making business decisions.

CP 1-7

Note to Instructors: The purpose of this activity is to familiarize students with the certification requirements and their online availability. You might use this as an opportunity to discuss the advantages and disadvantages of careers in public accounting (CPA), management accounting (CMA), and internal auditing (CIA).

The following websites provide students with useful information (such as starting salaries) on careers in accounting:

American Institute of Certified Public Accountants (AICPA)

<https://www.aicpa.org/becomeacpa.html>

Institute of Certified Management Accountants (IMA)

<http://www.imanet.org/cma-certification/cma-certification-overview>

Institute of Internal Auditors (IIA)

<https://na.theiia.org/about-us/Pages/About-The-Institute-of-Internal-Auditors.aspx>

CP 1-8

	First Year	Second Year	Third Year
Net cash flows from (used for) operating activities	negative	positive	positive
Net cash flows from (used for) investing activities	negative	negative	negative
Net cash flows from (used for) financing activities	positive	positive	positive

Start-up companies normally experience negative net cash flows from operating activities; however, Amazon.com was able to generate positive net cash flows from operations by its second year. Start-up companies normally have negative net cash flows from investing activities as they build up their infrastructure through purchases of property, plant, and equipment. This was the case with Amazon.com for each of its first three years. Likewise, start-up companies normally have positive net cash flows from financing activities from raising capital. This is also the case for Amazon.com.